

Message Text

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ACTION EA-09

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 EB-07
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06
SP-02 CIEP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15
STR-04 CEA-01 PA-02 PRS-01 AGRE-00 /105 W
----- 023216 /11

P R 160610Z DEC 76
FM AMEMBASSY TOKYO
TO SECSTATE WASHDC PRIORITY 4229
TREASURY DEPT WASHDC
INFO AMEMBASSY BONN
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMCONSUL HONG KONG
USMISSION OECD PARIS

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DEPT PASS FEDERAL RESERVE, CEA, LABOR

E.O. 11652: N/A
TAGS: EFIN, JA
SUBJECT: FINANCIAL AND ECONOMIC DEVELOPMENTS -- DEC 9-15
L1. SUMMARY: JAPANESE NATIONAL ACCOUNTS DATA INDICATE THIRD QUARTER
DECELERATION IN ECONOMIC RECOVERY ATTRIBUTABLE TO DECLINE IN
NET EXPORTS OF GOODS AND SERVICES AND SLOWER GROWTH OF GOVT
INVESTMENT. NOV TRADE SURPLUS NARROWS
AS EXPORTS DECLINE AGAIN AND IMPORTS SHOW HEALTHY GAINING
JAPANESE ECONOMIC RESEARCH CENTER PROJECTS FAIRLY BROADLY
BASED 5 1/2 PERCENT GNP GROWTH FOR JAPAN NEXT YEAR AND ONLY
SMALL DECLINE IN JAPAN'S CURRENT EXTERNAL SURPLUS. NOV WHOLE-

SALE PRICE INCREASE CONTINUES MODERATE PATTERN OF RECENT
MONTHS. LABOR STATISTICS REFLECT ECONOMIC LULL. END SUMMARY.

2. NATIONAL ACCOUNTS DATA RELEASED THIS WEEK SHOW REAL
GNP GROWTH (SEASONALLY ADJUSTED) IN THE THIRD QUARTER
SLOWED TO 1.2 PERCENT ANNUAL RATE. IN CONTRAST TO SECOND
QUARTER, WHEN INCREASES IN GOVT FIXED INVESTMENT AND NET
EXPORTS TO FOODS AND SERVICES CONTRIBUTED TO BUOY UP
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ECONOMY, THIRD QUARTER DATA SHOW ONLY MODEST CONTRIBUTION

FROM GOVT FIXED INVESTMENT AND LARGE NEGATIVE IMPACT FROM DECLINE IN NET EXPORTS OF GOODS AND SERVICES. OVERALL, THIRD QUARTER FINAL DOMESTIC DEMAND ROSE AT SAME PACE AS IN PRECEDING PERIOD, AT 3.4 PERCENT ANNUAL RATE. INCREASES IN BOTH PRIVATE CONSUMPTION AND PRIVATE FIXED INVESTMENT ALTHOUGH STILL MODEST EXCEEDED THOSE OF PRIOR QUARTER. DETAILED EPA ESTIMATES OF GNP FOR RECENT QUARTERS TRANSMITTED TOKYO 18204 NOTAL.)

3. NOV TRADE DATA RELEASED TUESDAY AFTERNOON (REPORTED TOKYO 18341) SUGGEST DECLINING NET EXPORTS OF GOODS AND SERVICES AGAIN IN THE FOURTH QUARTER. ABSENT ANY UNEXPECTEDLY DRAMATIC CHANGE IN DEC TRADE FOURTH QUARTER TRADE BALANCE SHOULD DETERIORATE FROM THIRD QUARTER, HOWEVER, IT SEEMS PREMATURE TO READ MUCH INFO NOV INCREASE IN IMPORTS, ESPECIALLY GIVEN PROBABLE DISTORTIONS IN OIL TRADE PATTERNS AS A RESULT OF OPEC DOHA MEETING.

4. LOOKING TO NEXT YEAR, NEW JAPANESE ECONOMIC RESEARCH CENTER FORECAST PREDICTS RESUMED ECONOMIC RECOVERY IN JAPAN, ALBEIT AT SOMEWHAT LOWER RATE THAN ESTIMATED FOR FULL YEAR 1976, AND RATHER MODEST DECLINE IN CURRENT ACCOUNT SURPLUS. JERC FORECAST RELEASED DEC 13 PREDICTS REAL GNP GROWTH IN CY 1977 OF 5.6 PERCENT, AS COMPARED WITH 6.6 PERCENT ESTIMATED FOR YEAR 1976. JERC SEES PRIVATE CONSUMPTION AS LIKELY TO GROW MODERATELY NEXT YEAR, AT ABOUT THIS YEAR'S PACE. SOME PICKUP IN PRIVATE PLANT AND EQUIPMENT INVESTMENT, PARTICULARLY IN LATTER HALF OF NEXT YEAR, FORESEEN. JERC FORECAST ASSUMES NO MAJOR CHANGES IN GOJ ECONOMIC POLICY, WITH FISCAL SPENDING RISING AT ABOUT SAME RATE AS GNP. ASSUMING HYPOTHEETICAL 10 PERCENT OIL PRICE INCREASE, JERC PUTS JAPAN'S CURRENT ACCOUNT BALANCE OF PAYMENTS SURPLUS IN 1977 AT \$2.9 BIL, VS \$4 BIL ESTIMATED FOR 1976, WITH EXPORTS PICKING UP IN LATTER HALF OF NEXT YEAR. INFLATION EXPECTED REMAIN AT ABOUT THIS YEAR'S ANNUAL RATE OF 9 PERCENT. FOLLOWING TABLE SUMMARIES JERC FORECAST:

PERCENT CHANGE FROM PRIOR YEAR (VOLUME)
(CALENDAR YEAR BASIS)

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	1976	1977
GNP	6.6	5.6
PRIVATE CONSUMPTION	4.9	5.1
PVT PLANT AND EQUIP. INVEST.	2.1	5.6
IND. PRODUCTION	13.7	7.4
CPI	9.2	9.1

BALANCE OF PAYMENTS (IN \$ BIL, PERCENT CHANGE FROM PRIOR YEAR IN PAREN)

EXPORTS	65.7 (20.0)	74.8 (13.8)
IMPORTS	55.5 (11.6)	64.7 (16.6)
TRADE BALANCE	10.2	10.1
CURRENT BALANCE	4.1	2.9

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5. NOV WHOLESALE PRICE FIGURES SHOW ANOTHER MODERATE INCREASE -- 0.3 PERCENT. MAJOR CATEGORIES RECORDING LARGER INCREASES IN NOV INCLUDE PROCESSED FOODS (UP 0.8 PERCENT), OIL AND COAL PRODUCTS (UP 0.9 PERCENT) AND UNPROCESSED AGRICULTURAL PRODUCTS (UP 0.5 PERCENT). WHOLESALE PRICE INDEX FOR MANUFACTURED GOODS RECORDED ONLY 0.1 PERCENT INCREASE IN NOV AND RATE OF INCREASE FOR THIS SERIES HAS SLOWED MARKEDLY SINCE MID-SUMMER.

INDEX, N.S.A., 1970-100; PERCENT CHANGE FROM PRIOR MONTH IN PAREN

TOTAL (JEI 471) MANUFACTURERS		
RECENT QUARTERS (MONTHLY AVG)		
JAN-MAR	161.6 (0.8)	153.2 (0.6)
APR-JUNE	164.2 (0.5)	155.5 (0.5)
JUL-SEP	167.3 (0.6)	158.7 (0.7)
RECENT MONTHS		
SEP	168.0 (0.4)	159.0 (0.0)

OCT	168.2 (0.1)	159.2 (0.1)
NOV	168.7 (0.3)	159.4 (0.1)

6. LABOR MARKETS DETERIORATED SOMEWHAT IN OCT. NUMBER OF FULLY UNEMPLOYED PERSONS ROSE AGAIN IN OCT TO UNCLASSIFIED

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1.1 MIL LEVEL. UNEMPLOYMENT RATE CLIMBED TO 2.05 PERCENT, REVERSING SEP IMPROVEMENT. (NOTE: PRIME MINISTER' OFFICE, USING DIFFERENT SEASONAL ADJUSTMENT FACTORS THAT EPA, REPORTED LAST FRIDAY OCT UNEMPLOYMENT RATE AS DECLINING TO 2.0 PERCENT.) JOB OFFERS TO APPLICANT RATIO DROPPED TO THE LOWEST LEVEL SO FAR THIS YEAR, AND OVERTIME WORKED IN MANUFACTURING SECTOR DECLINED SLIGHTLY FOR SECOND CONSECUTIVE MONTH. UNIT LABOR COSTS ROSE SHARPLY IN OCT, RECORDING THIRD STRAIGHT MONTHLY INCREASE. LABOR PRODUCTIVITY SHOWED SMALL IMPROVEMENT IN AUG. (DATA AVAILABLE ONLY THUR AUG.

JEI NO.	SERIES (UNIT)(NOTE)	AUG	SEP	OCT
378	UNEMPLOYED (THOUSANDS)	1100	1080	1100
379	UNEMPLOYMENT RATE (PERCENT)	2.04	2.00	2.05
385	JOB OFFERS/APPLICANT RATIO	0.67	0.65	0.53
401	MFG OVERTIME (1970-100)	135.6	135.0	134.6
421	UNIT LABOR COST (1970-100)	182.9	185.4(R)	188.2
	JUNE JUL AUG			
N/A	LABOR PRODUCTIVITY, MACHINERY (1970-100)	173.4	170.7	171.1

NOTE: ALL SERIES ARE SEASONALLY ADJUSTED BY EPA
(R) - REVISED

7. IN OTHER DEVELOPMENT THIS WEEK, NEW PRIVATE MACHINERY ORDERS FELL BACK IN OCT TO ABOUT YEAR'S AVERAGE LEVEL, FOLLOWING SURGE IN SEPT. VIRTUALLY ALL OF DECLINE ACCOUNTED FOR BY SHARP DROP IN ORDERS PLACED BY ELECTRIC POWER INDUSTRY (REPORTED TOKYO 18111 NOTAL.

8. IT WAS ALSO ANNOUNCED THIS WEEK THAT SINGAPORE WILL BE FIRST ASIAN NATION TO OFFER YEN BONDS IN JAPAN. JAPANESE UNDERWRITING CONSORTIUM, LED BY DAIWA SECURITIES, SIGNED CONTRACT DEC 14 TO SELL YEN 10 BILLION OF 12-YEAR GOS BONDS. INTEREST RATE IS 8.9 PERCENT. IN ANOTHER DEVELOPMENT, A CONSORTIUM OF 24 JAPANESE COMMERCIAL BANKS SIGNED AN AGREEMENT DEC 15 WITH A BRAZILIAN GOVT AGENCY TO EXTEND A LOAN EQUIVALENT TO \$100 MILLION. THE LOAN, TO BE USED FOR A SHIPBUILDING PROJECT, IS REPAYABLE IN 7 YEARS, WITH A GRACE PERIOD OF THREE YEARS. OF THE TOTAL AMOUNT, \$50 MILLION WILL UNCLASSIFIED

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BE PROVIDED IN U.S. DOLLARS AND THE REMAINDER IN YEN.
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